

# Economic Perspectives

## Domestic economic growth is gaining momentum

### Stimulus hope to boost trade

In October, trade activities extended its recovery path to five months with slower export and import rates at 9.91% YoY and 10.05% YoY, respectively. We predict that stimulus packages to boost trade despite the latest COVID resurgences may force governments to enhance virus curbs.

### CPI grows modestly

According to GSO's estimates, the retail sales in October witnessed an acceleration as the retailing sector grew with a double-digit rate, first time since February 2020. In contrast, the accommodation and catering (A&C) and traveling sectors kept reducing notably and hindered the overall growth rate back to the pre-pandemic level.

### FDI disbursement remains robust

FDI inflows bounced back somewhat in October, in which newly registered capital reached a 9-month high and disbursed FDI remained substantially high. Looking forward to November and December, we expect a more positive outlook for FDI disbursement, while registered FDI would likely remain subdued.

### Strong growing manufacturing to face headwind

In October, the expansion in the industrial sector continued accelerating, marking 6-month straight growth since April at a fast pace. Looking forward to 4Q20, we expect IIP in November and December would likely reflect the impact from the 2<sup>nd</sup> lockdown from European countries and elsewhere but this time the impact would much less serious than in April.

### KIS leading economic index

(USD bn, %, % QoQ, % YoY)

|               | 1Q20   | 2Q20    | 3Q20   | 4Q20F  | 2019   | 2020F  | 2021F  |
|---------------|--------|---------|--------|--------|--------|--------|--------|
| GDP           | 3.82   | 0.36    | 2.62   | 5.03   | 7.02   | 2.50   | 5.94   |
| Trade balance | 1.73   | 0.57    | 7.41   | 5.06   | 10.42  | 7.94   | 1.77   |
| CPI           | 4.87   | 3.17    | 3.81   | 3.09   | 5.23   | 3.09   | 2.41   |
| Discount rate | 3.50   | 3.00    | 3.00   | 3.00   | 4.00   | 3.00   | 3.00   |
| VND/USD       | 23,264 | 23,206  | 23,188 | 23,252 | 23,231 | 23,255 | 23,246 |
| US GDP        | (4.80) | (34.20) | NA     | 7.90   | 2.3    | (5.70) | 3.90   |
| China GDP     | (6.80) | 1.10    | NA     | 6.00   | 6.10   | 1.80   | 8.00   |

Source: KIS

### Contents

|   |           |
|---|-----------|
| I. Stimulus hope to boost trade .....                 | 1         |
| II. CPI grows modestly .....                          | 4         |
| III. Retail sector accelerates.....                   | 6         |
| IV. FDI disbursement remains robust .....             | 6         |
| V. Strong growing manufacturing to face headwind..... | 9         |
| VI. Budget deficit expands to VND164.7tn .....        | 13        |
| <b>Macro scorecard .....</b>                          | <b>14</b> |

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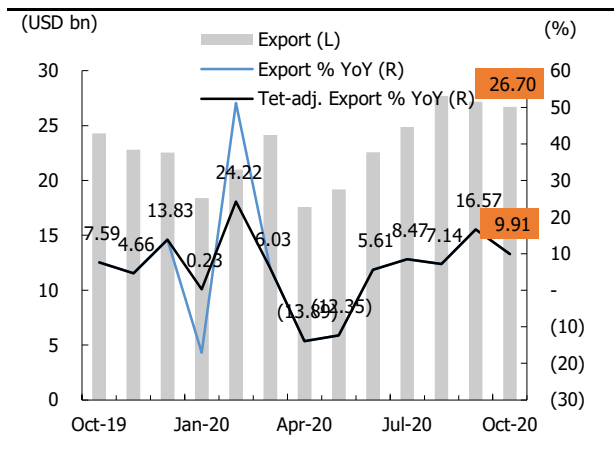
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## I. Stimulus hope to boost trade

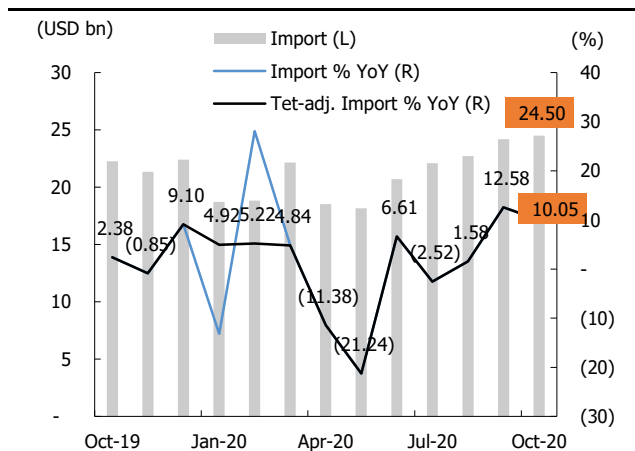
According to GSO's estimates, trade activities in October extended its recovery path to five months with slower export and import rates than the previous month. Specifically, export and import rose by 9.91% YoY and 10.05% YoY, posting USD26.70bn and USD24.50bn, respectively. Consequently, the trade balance recorded a surplus of USD2.20bn, marking the sixth month in series starting from May.

**Figure 1. Vietnam monthly export**



Source: KIS, GSO

**Figure 2. Vietnam monthly import**

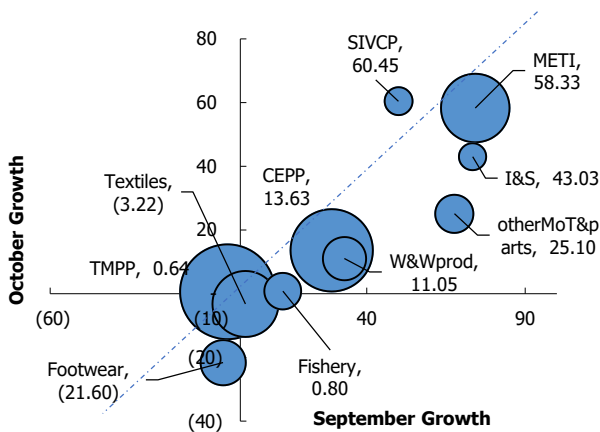


Source: KIS, GSO

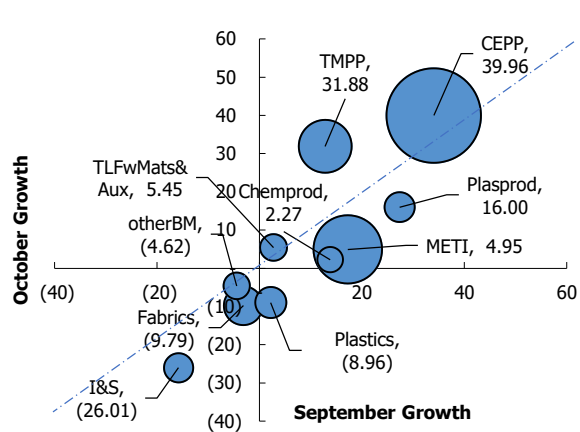
Regarding export structure, most of the essential items witness slowdowns such as computers, electrical products and parts (CEPP), machines, equipment, tools and instruments (METI), and wood and wooden products (W&Wprod), even the textiles turned into reduction by declining by 3.22% YoY. More prominently, footwear exacerbated its performance in this period by tumbling by 21.60% YoY, much-worse than the reduction rate in September. In the minority, telephones, mobile phones and parts (TMPP) and still image, video cameras and parts (SIVCP) improved and partly mitigated the overall slowdown. The TMPP turned into slight growth at 0.64% YoY from the reduction at 4.01% YoY in September, while the SIVCP enhance its upward momentum by climbing 60.45% YoY, 10.43 percent point- higher than the previous period.

Movements of large items within the import structure witnessed obvious contrast in directions. TMPP and CEPP accelerated significantly by soaring by 31.88% YoY and 39.96% YoY, while iron and steel (I&S), plastics, and fabrics were worsening by dropping by 26.01% YoY, 8.96% YoY, and 9.79% YoY. Besides, slowdowns in METI and plastic products (Plasprod) hindered import's growth rate return to the pre-pandemic level.

**Figure 3. Vietnam top 10 export items**



**Figure 4. Vietnam top 10 import items**

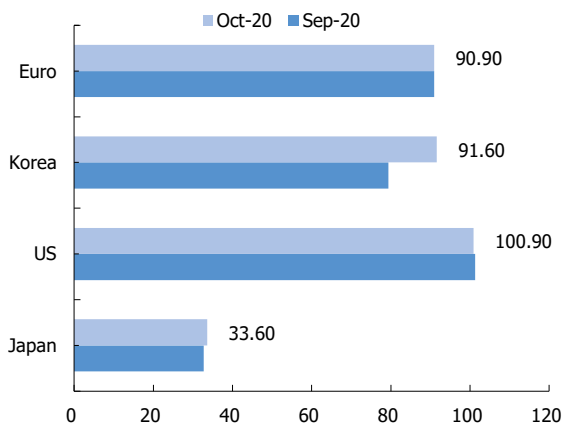


Source: KIS, GSO

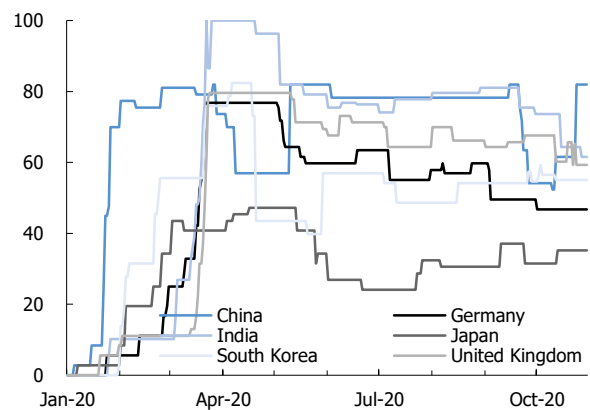
TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, otherMoT&p arts: other means of transportation parts and accessories thereof, W&Wprod: wood and wooden products, F&V: fruits and vegetables, I&S: iron and steel, Plasprod: plastic products, TLFwMats&Aux: textile, leather and foot-wear materials and auxiliaries, otherBM: other base metals.

Regarding demand factors, consumer confidence indices over our essential trading partners recorded improvements compared to September, except for the slight decrease in the U.S market. Generally, consumers feel more confident about the labor market and business prospect and hence becomes more willing to spend. Such movements partly explain the October trade growth. Besides, the government response stringency index, representing how strictly the government conducts virus curbs, tends to lower globally to encourage trade activities.

**Figure 5. Consumer confidence indices (CCI)**



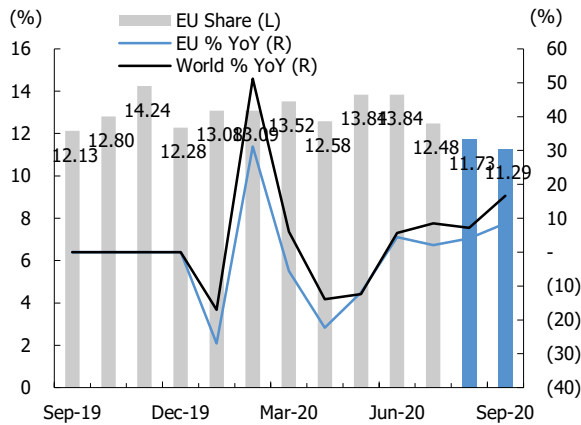
**Figure 6. Government response stringency index**



Source: WHO, Bloomberg, [Our World in Data](#), KIS

COVID effect seems to overwhelm what EVFTA would potentially benefit to Vietnam's export. As one of the essential articles, the EU commits to immediately exempt for 85.6% tariff lines, equivalent to 70.3% of Vietnam's export value to the EU when the agreement comes into effect. However, there is no clear evidence about the benefit of EVFTA in recent months when the EU portion in export structure tends to lower since May 2020 due to the lower recovery pace relative to the world.

**Figure 7. Export to EU relative to World**

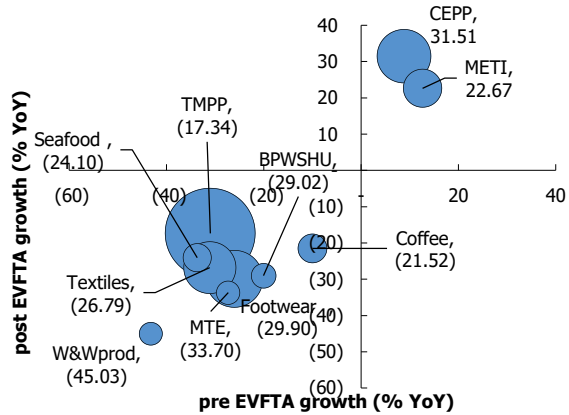


Source: GSO, Bloomberg, KIS

Notes: blue bars indicate the time that EVFTA takes effect

TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, MTE: Means of transport and equipment, W&Wprod: wood and wooden products, BPWSHU: Bags, pockets, wallets, suitcases, hats and umbrellas

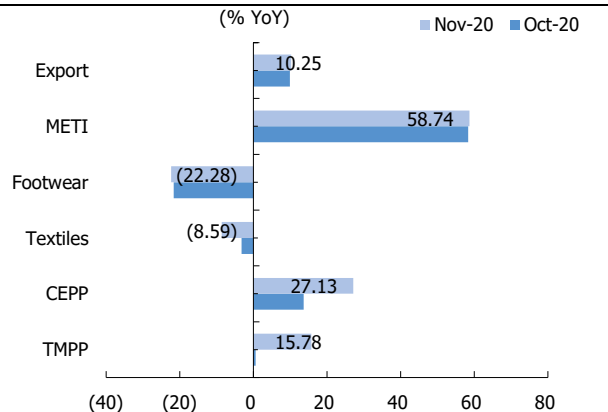
**Figure 8. Top 10 export items to EU: before and after EVFTA**



**PREDICTION:**

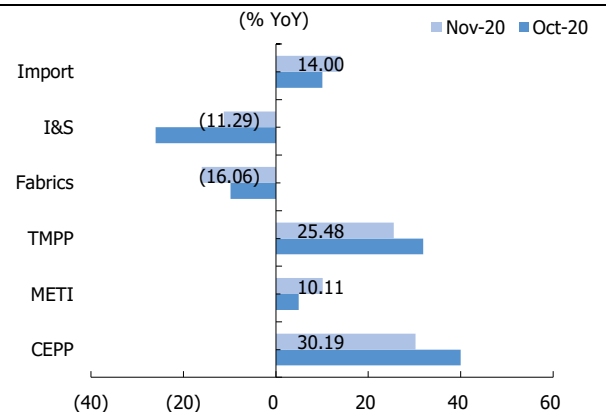
- Covid resurgence risk seems to set the world to the new lockdown wave and other measures to ensure the pandemic was under control. The stringency index tends to increase along with the covid resurgence in the US, UK, and some European countries. However, recent stringency indices were not so low from the September peaks. Hence, the new level of such restrictions will affect the trade activities to a lower extent than April.
- Although EVFTA came into effect in August 2020, its effect seems to fade in the ongoing pandemic context. Tariff exemptions attract exporters to increase the capacity, but the current business prospect does not motivate customers spend more. Therefore, we assert that EVFTA's effect will become more significant in the longer run.
- The U.S second stimulus package will sharpen after the presidential election finishes and is predicted to boost consumer confidence in the last quarter of 2020. Hence, we consider this COVID-19 relief to the economy as an essential factor supporting trade activities.
- We predict export and import to grow by 10.25% YoY and 14.00% YoY in November 2020, respectively.

**Figure 9. Vietnam export forecast**



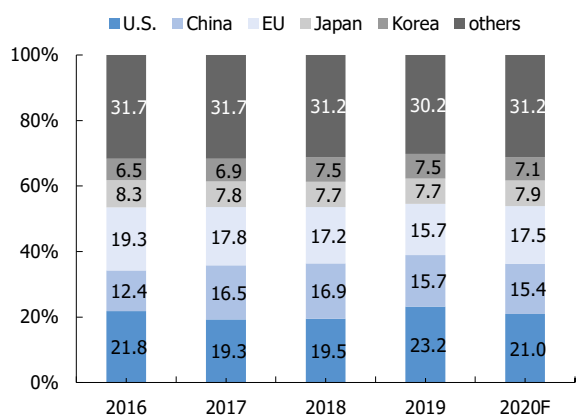
Source: KIS, Bloomberg

**Figure 10. Vietnam import forecast**



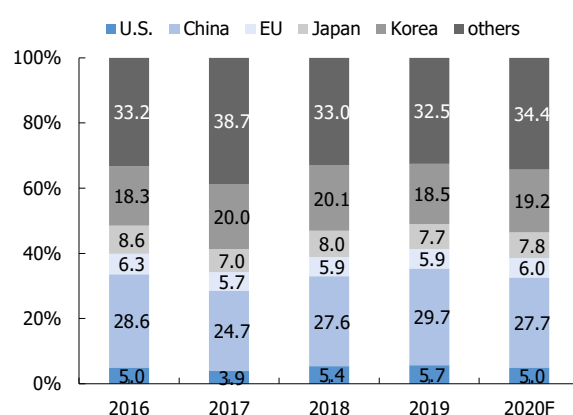
Source: KIS, Bloomberg

**Figure 11. Vietnam export by country**



Source: KIS, GSO

**Figure 12. Vietnam import by country**

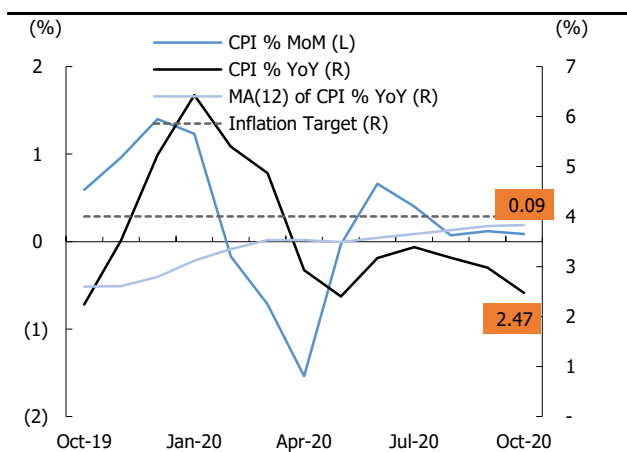


Source: KIS, GSO

## II. CPI grows modestly

The Consumer Price Index (CPI) modestly increased by 0.09% compared to the previous month, recording the series of five rising months. However, the yearly change in CPI tended to slow as the current monthly change was lower than that in the same period in 2019. Specifically, CPI increased by 2.47% YoY in October 2020, 51bps-lower than September 2020. The 12-month rolling inflation rate posted 3.83%, 17bps-lower than the Government target rate of 4%. Education and housing and construction materials (HCM) sub-indices continued rising by 1.52% MoM and 0.29% MoM and virtually push CPI. On the contrary, food and foodstuff (F&Fs) decreased by 0.13% MoM and mainly put downward pressure on the general price index.

**Figure 13. CPI monthly change**



Source: GSO, KIS

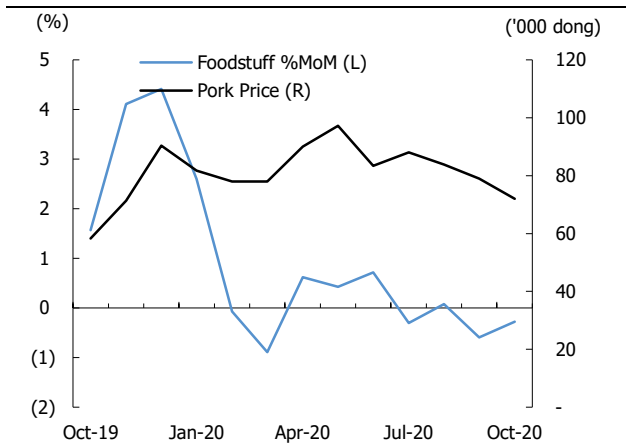
**Table 1. Inflation by sectors**

| Item                                | Weight (%) | % MoM       | % YoY       |
|-------------------------------------|------------|-------------|-------------|
| Food and foodstuff                  | 36.12      | (0.13)      | 9.50        |
| Beverage and cigarette              | 3.59       | 0.08        | 1.39        |
| Garment, Footwear, hat              | 6.37       | 0.06        | 0.53        |
| Housing and construction materials  | 15.73      | 0.29        | 0.70        |
| Household appliances and goods      | 7.31       | (0.00)      | 0.88        |
| Medicine and health care            | 5.04       | 0.01        | 0.57        |
| Traffic                             | 9.37       | (0.08)      | (13.49)     |
| Postal services & Telecommunication | 2.89       | (0.03)      | (0.53)      |
| Education                           | 5.99       | 1.52        | 4.19        |
| Culture, entertainment and tourism  | 4.29       | (0.18)      | (2.16)      |
| Other goods and services            | 3.3        | 0.09        | 2.27        |
| <b>Consumer Price Index</b>         |            | <b>0.09</b> | <b>2.47</b> |

Source: GSO, KIS

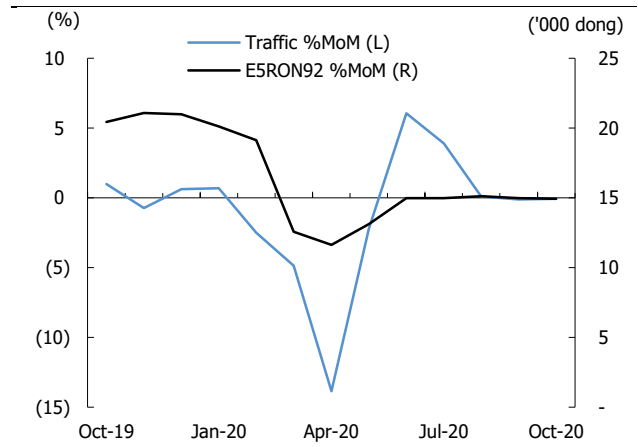
Regarding the petroleum product prices, E5RON92 and RON95 decreased modestly by 1.35% MoM and 0.86% MoM, posting VND14,215 and VND14,984 in September. Such reductions drove the traffic index to decline by 0.12% MoM this month, dragging the overall CPI monthly change down by 1bps.

**Figure 14. Pork price and food and foodstuff**



Source: KIS, Bloomberg

**Figure 15. Petroleum product prices movements**

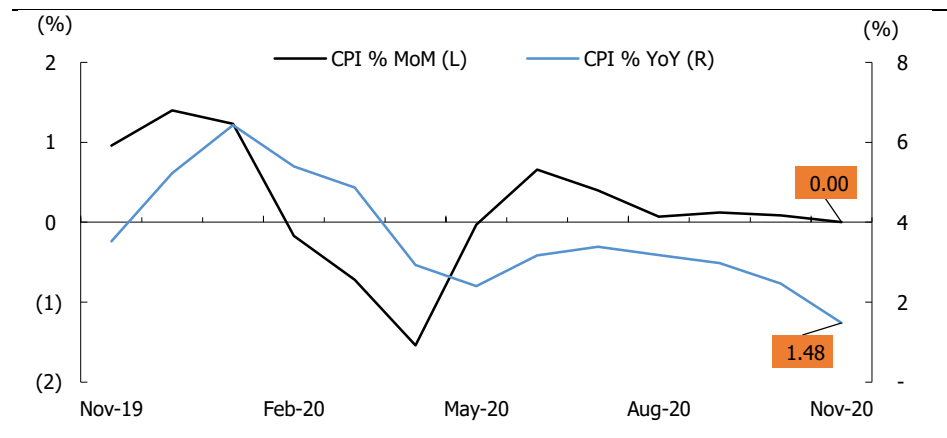


Source: KIS, Bloomberg

**PREDICTION:**

Consumer price index is losing its upward momentum as gasoline and pork prices became more stable. We use this pattern to predict that CPI will unchanged in the next period.

**Figure 16. Forecast of CPI in October 2020**

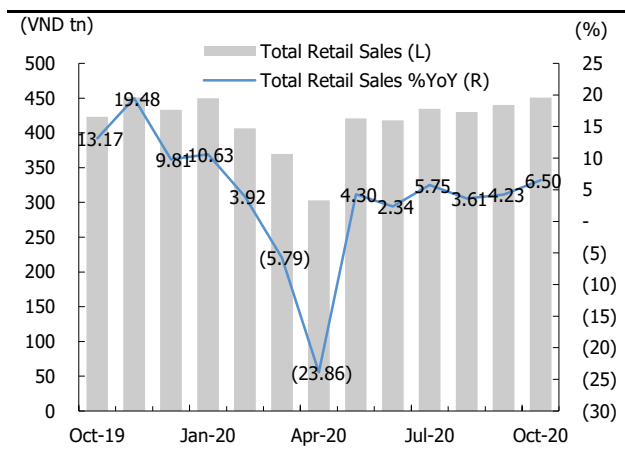


Source: KIS, GSO

### III. Retail sector accelerates

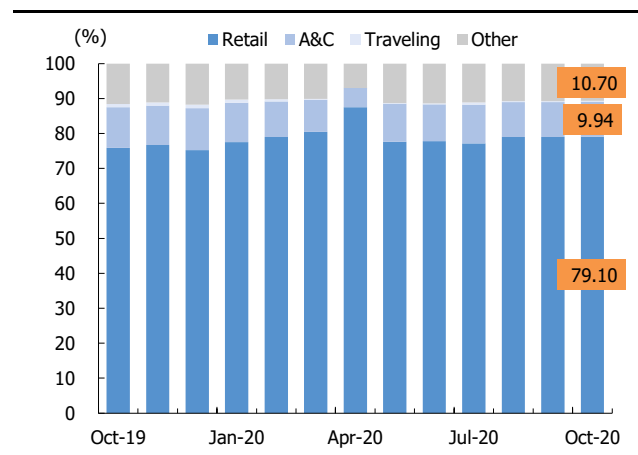
According to GSO's estimates, the retail sales in October witnessed an acceleration by increasing by 6.50%, 227bps-higher than previous month and posting VND450.76tn. The retailing sector grew with a double-digit rate, first time since February this year and was the main reason for lifting retail sales. In contrast, the accommodation and catering (A&C) and traveling sectors kept reducing notably and hindered the overall growth rate back to the pre-pandemic level. Specifically, the retailing rose by 11.06% YoY, 189bps-higher than September performance, while A&C and traveling declined by 9.27% and 69.99% YoY, respectively. The well-controlled pandemic within the country loose customer concerns while COVID resurgences in the EU and the U.S. calmed the government in easing virus curbs. In late October, Prime Minister Nguyen Xuan Phuc directed to delay reopening the border for foreigner travelers and consequently remained the revenues of A&C and traveling operations at a low base.

**Figure 17. Monthly retail sales**



Source: GSO, KIS

**Figure 18. Components of retail sales**



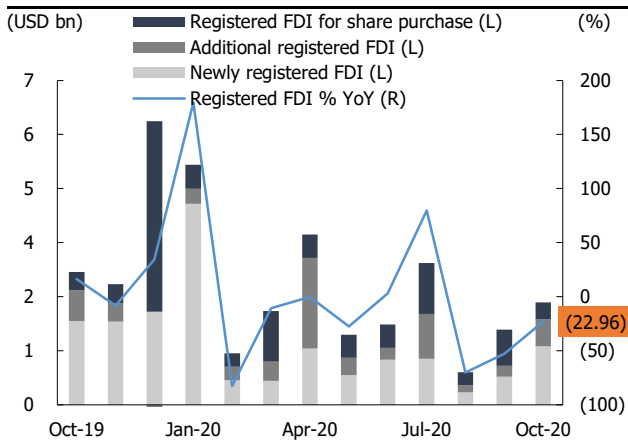
Source: GSO, KIS

### IV. FDI disbursement to remain robust

The latest data in October pointed out that FDI inflows bounced back somewhat compared to two previous months, in which newly registered capital reached a 9-month high after shrinking from August and September. It is also noticed that the FDI inflows concentrated on just a few key industries, including the processing and electricity sectors, while the capital registered in other sectors remained sluggish. Most notably, a new wave of investment capital into the renewable energy industry is promising to boost up FDI in the future.

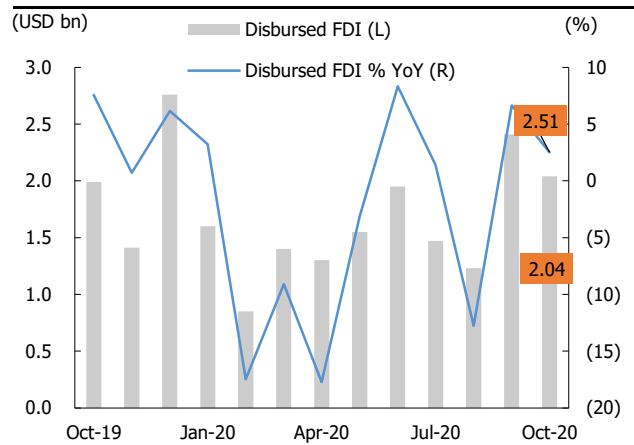
Going into detail, in October, total registered FDI recorded USD2.23bn (-22.96% YoY), and it is also noticing that FDI newly registered reached a 9-month high of USD1.30bn since February. Meanwhile, USD0.59bn was additionally registered for existing projects, while the capital registered for share purchase declined to USD0.38bn. FDI disbursement continued to remain substantially high, reaching the second-highest of USD2.04bn in 2020, up by 2.51% YoY.

**Figure 19. Registered FDI**



Source: MPI, KIS

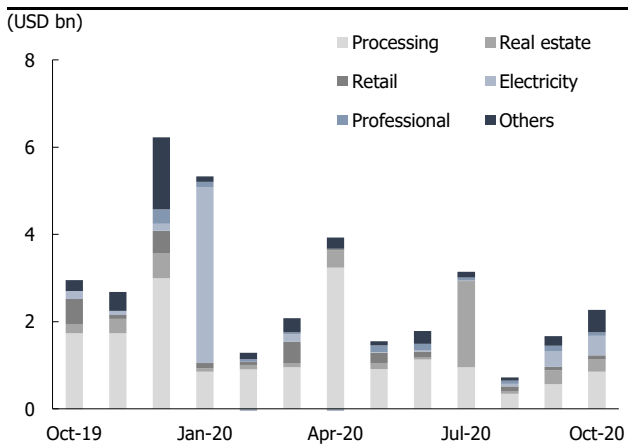
**Figure 20. Disbursed FDI**



Source: MPI, KIS

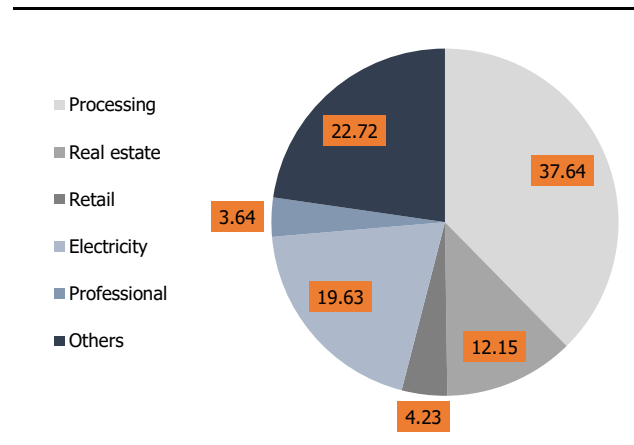
In the month, FDI registered into just processing and electricity sectors accounted for more than half of total registered FDI, at USD0.86bn (37.64% of total) and USD0.45bn (19.63%), respectively. Real estate and retail sectors remained less attractive to foreign investors than in the previous year under the severe COVID-19 impact, posting USD0.28bn (12.15%) and USD0.10bn (4.23%), respectively.

**Figure 21. Registered FDI by sector**



Source: MPI, KIS

**Figure 22. Structure of registered FDI in 2Q20**

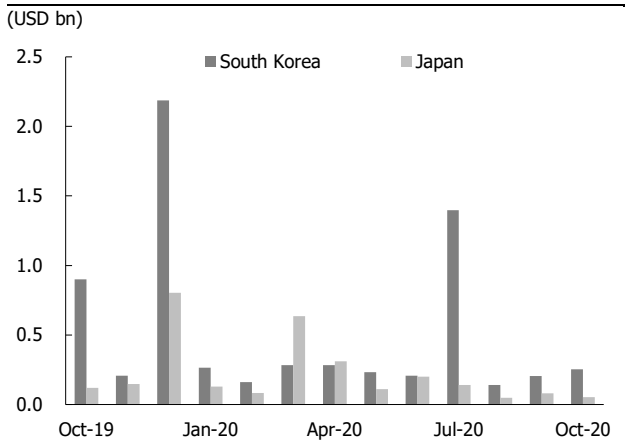


Source: MPI, KIS



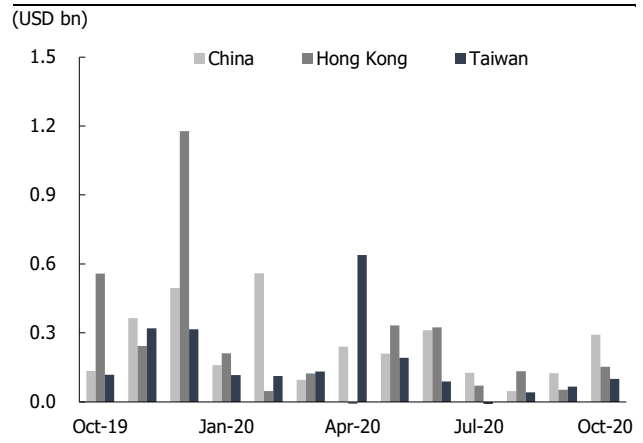
FDI inflows from China, Hong Kong, and Taiwan somewhat bounced back, posting USD0.29bn, USD0.15bn, and USD0.10bn, after stalling in the third quarter, respectively. FDI from South Korea remained weak at about USD0.25bn, while FDI from Japan plunged to the second-lowest of just USD0.05bn since November 2016.

**Figure 23. FDI inflows from South Korea, Japan**



Source: MPI, KIS

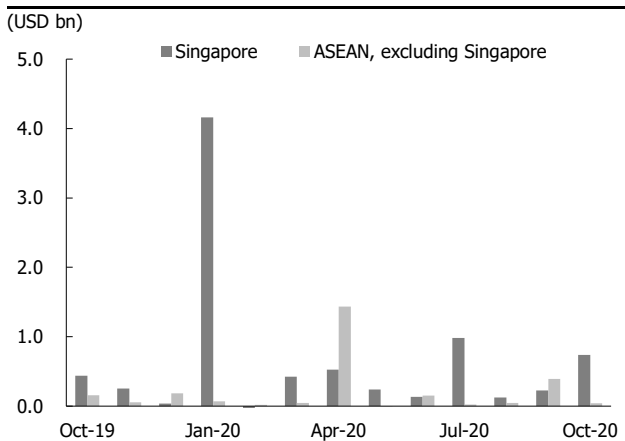
**Figure 24. FDI inflows from China, Hong Kong, Taiwan**



Source: MPI, KIS

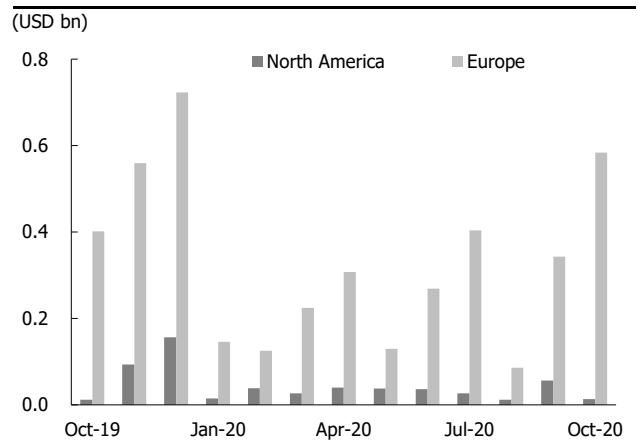
Singapore was the largest investors in the month with USD0.74bn registered capital and also in 2020 for the time being with a 10-month accumulatively registered capital of USD7.51bn. FDI inflows from the Europe region also recorded a high of USD0.58bn in 2020. On the opposite, FDI from ASEAN partners excluding Singapore was insignificant.

**Figure 25. FDI inflows from ASEAN partners**



Source: MPI, KIS

**Figure 26. FDI inflows from EU and North American**



Source: MPI, KIS

**PREDICTION:**

Outlook for the FDI remained unclear in the last months of 2020. On the one hand, FDI disbursed in the two latest months recorded 2020's high levels. On the other hand, the registered FDI, although increasing somewhat in October, still stayed low under constrains in the global mobility.

For the time being, we see no evidence that the current situation would change in the 4<sup>th</sup> quarter. In other words, we maintain our view that the disbursed FDI would remain high in November and December, while the new registered FDI would stay subdued.

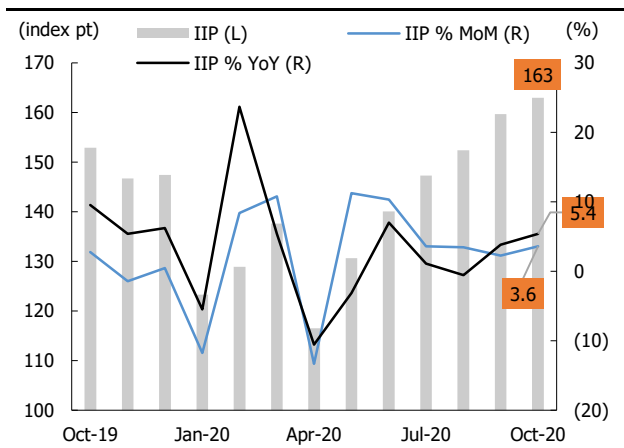
## V. Strong growing manufacturing to face headwind

In October, the expansion in the industrial sector continued accelerating, marking 6-month straight growth since April. More details, IIP was growing at 3.6% MoM and 5.4% YoY with the manufacturing sector mainly driving the growth.

With robust growth in most industries, the manufacturing sector continued rising significantly by 8.3% YoY. Oppositely, the downward trend in the mining sector was somewhat stronger (down by 14.5% YoY) as the extraction of crude oil and natural gas plunged further.

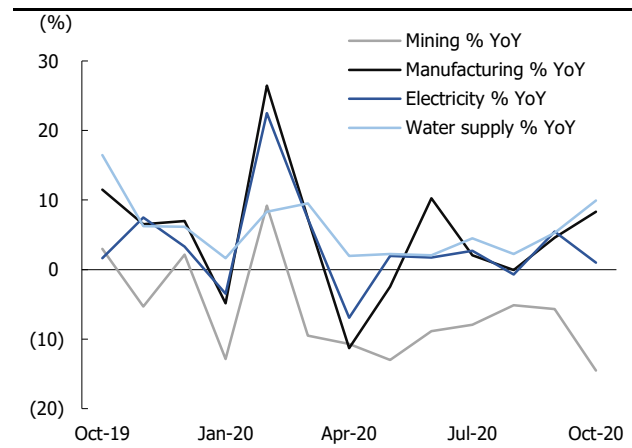
Besides, electricity production & distribution was up by 1.0% YoY, while the water supply industry jumped up by 9.9% YoY.

**Figure 27. Industrial production index**



Source: GSO, KIS

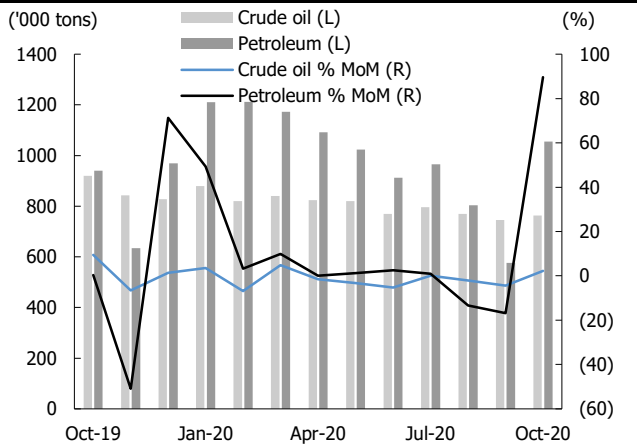
**Figure 28. Level-1 sectoral components**



Source: GSO, KIS

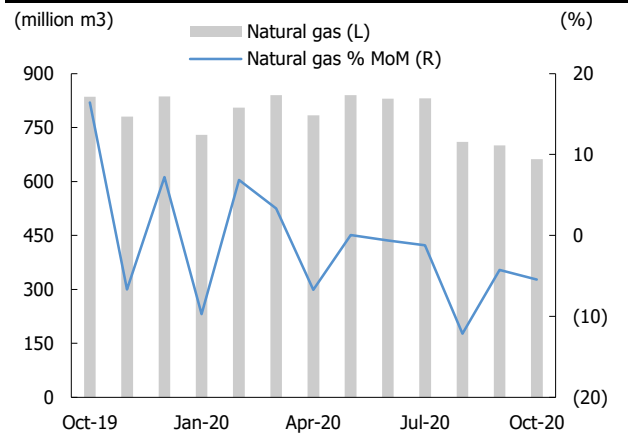
Further details about major industries and also main industrial products are as follows.

**Figure 29. Production of crude oil and petroleum**



Source: KIS, GSO

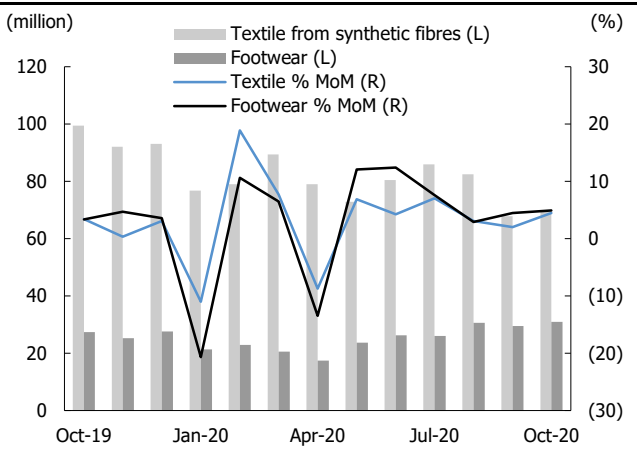
**Figure 30. Production of natural gas**



Source: KIS, GSO

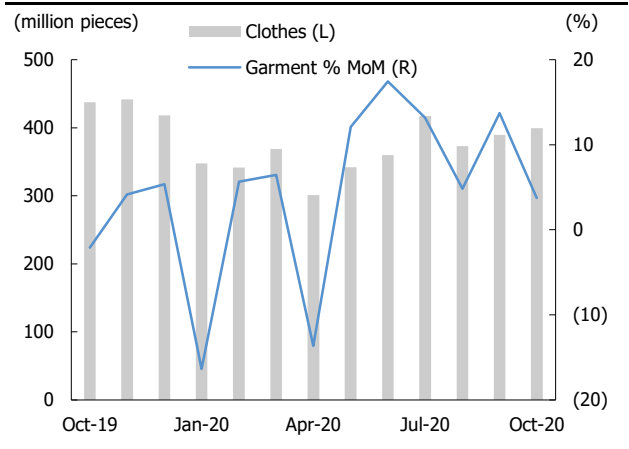
Crude oil production saw the first increase of 2.24% MoM after 6-month straight decrease since April. By contrast, production of natural gas recorded the seventh-month decrease of 1.93% MoM. Thanks to the full re-operation of Dung Quat Oil Refinery in October, the production of gasoline products bounced back by 89.7% MoM, reaching 6-month high.

**Figure 31. Production of textile and footwear**



Source: KIS, GSO  
Textile from synthetic fibres: million m2; Footwear: million pairs

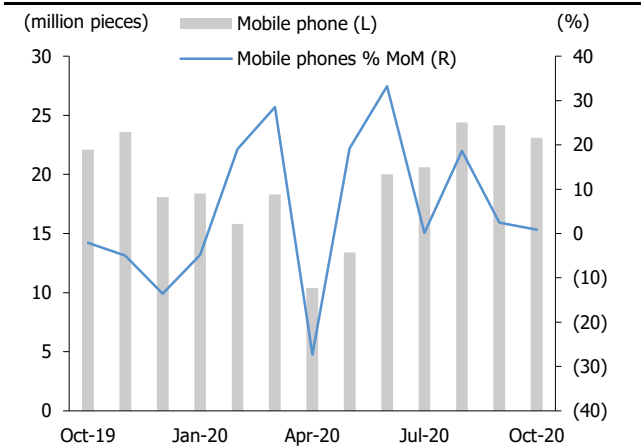
**Figure 32. Production of clothes**



Source: KIS, GSO

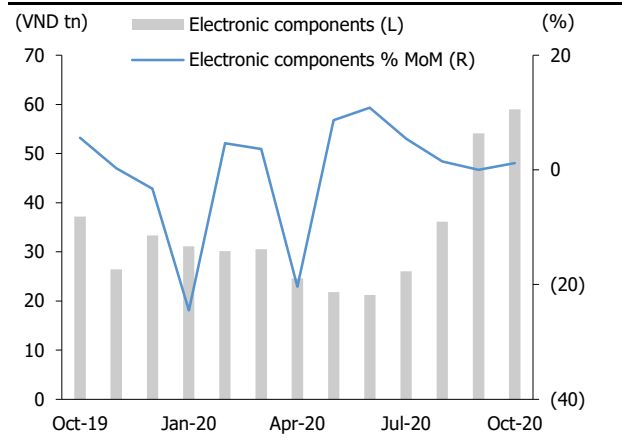
Overall, recovery in the textile and footwear continued accelerating, posting 4.45% MoM and 4.91% MoM, respectively. Meanwhile, the garment industry also grew but at a 6-month low pace of 3.73% MoM.

**Figure 33. Production of mobile phones**



Source: KIS, GSO

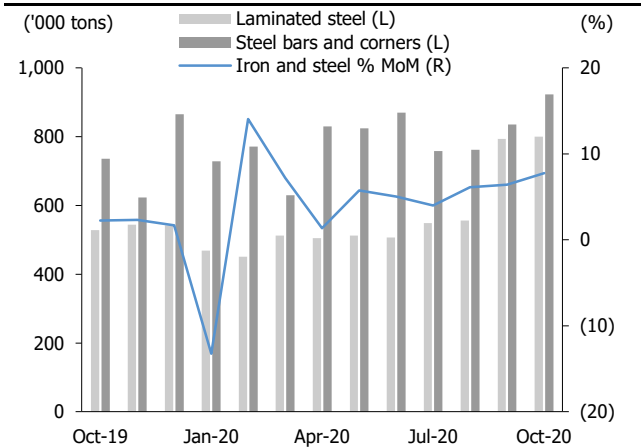
**Figure 34. Production of electronic components**



Source: KIS, GSO

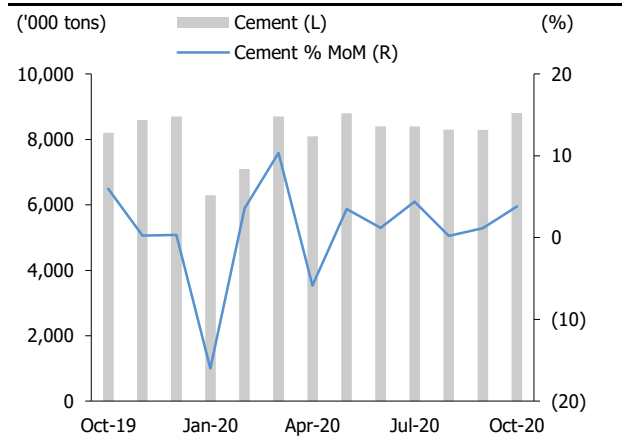
Production of mobile phones and electronic parts & components remained high in the month, increasing 0.9% MoM and 1.2% MoM, respectively. It is one of the largest key growth driver of the industrial sector since the global economy started re-opening.

**Figure 35. Production of steel products**



Source: KIS, GSO

**Figure 36. Production of cement**



Source: KIS, GSO

Production of iron and steel kept accelerating at 7.8% MoM thanks to high domestic and export demand. The production of cement also increased by 3.8% MoM.

## **PREDICTION:**

Looking forward to the last quarter of 2020, we expect the data for IIP in November and December would likely reflect the impact from the 2<sup>nd</sup> lockdown from European countries and elsewhere as the health crisis is returning more severely and overshadowing the world economy.

With demand for goods likely plunging from the European markets, the current industrial growth will hardly keep its pace in the near term, and the export-related industries will face difficulties like in the first outbreak but less serious. Electronic, textile, garment, and footwear industries, which rely significantly on the export to European markets, would likely see a very first and negative impact. Production of automobiles would also face similar difficulties.

By contrast, we expect other industries serving domestic demand will be in good shape thanks to robust retail sales. Food, beverage, and iron & steel industries would be named on the list.

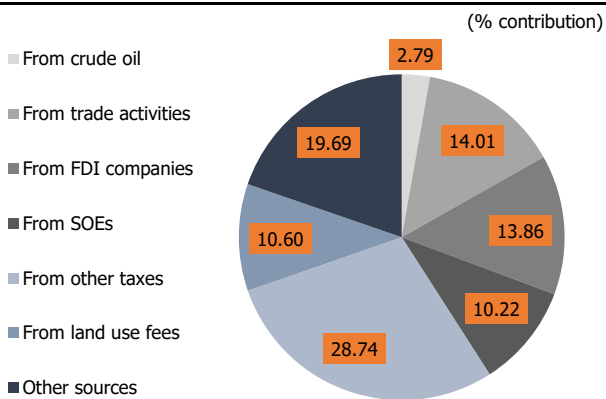
It should be noticed that a recent decline in global crude oil prices, due to concerns about global demand for crude oil, will continue to put downward pressure on the crude oil and natural gas industries, which in turn drag down the growth in the mining sector.

Taking all into account, we expect the IIP would slow down at about -1% YoY – 1.5% YoY.

## VI. Budget deficit expands to VND164.7tn

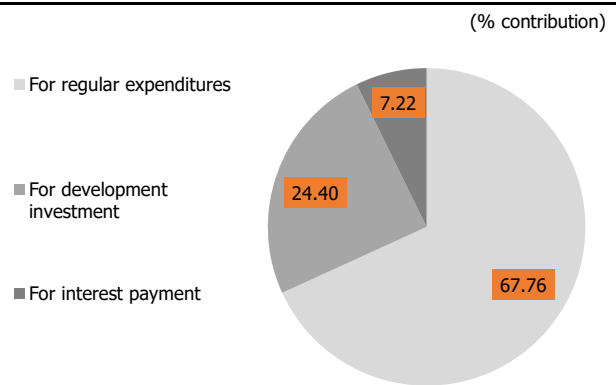
According to GSO's latest update, as of 3Q20, total government revenue posted VND1,018.6tn, equivalent to 67.4% of the year estimate. Of which, domestic revenue achieved VND846.6tn, equaling 67.0% of the annual estimate. Revenue from crude oil reached VND28.4tn, equaling 80.7%, while that from export-import activities was VND142.7tn, equaling 68.6%.

**Figure 37. Sources of government revenue in 10M20**



Source: GSO, KIS

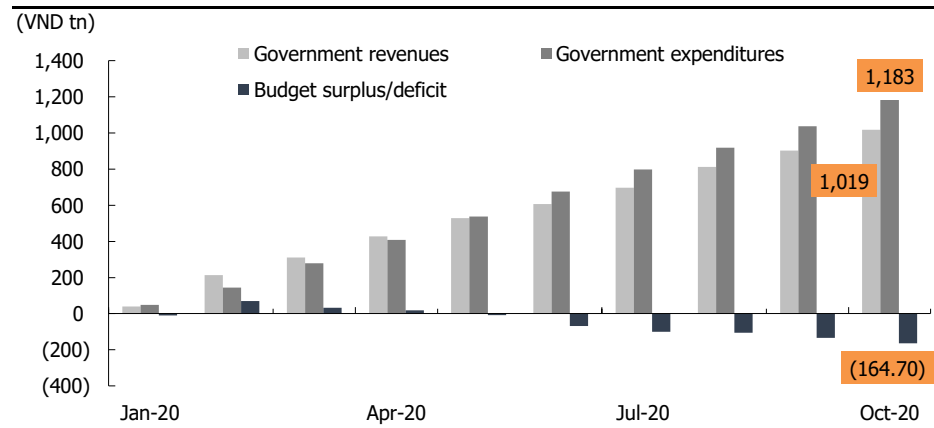
**Figure 38. Types of government expenditures in 10M20**



Source: GSO, KIS

On the other side, total expenditure was estimated at VND1,183.3tn, fulfilling 67.7% of the year estimate. In particular, the regular expenditure posted VND801.8tn, equaling 75.9% of the year plan, the development and investment spending recorded VND288.7tn, equivalent to 61.3%, and the interest payment was VND85.4tn, equaling 72.3%.

**Figure 39. Year-to-date government revenue and expenditures in 2020**



Source: GSO, KIS

As a result, by 3Q20, the state budget recorded a deficit of VND164.7tn

## Macro scorecard

(USD bn, USD, %, % YoY)

|                   | May-20  | Jun-20 | Jul-20 | Aug-20 | Sep-20 | Oct-20 | 4Q19   | 1Q20   | 2Q20   | 3Q20   | 2016   | 2017   | 2018   | 2019   |
|-------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Real GDP growth   |         | 0.36   |        |        | 2.62   |        | 6.97   | 3.82   | 0.36   | 2.62   | 6.21   | 6.81   | 7.08   | 7.03   |
| Registered FDI    | 1.55    | 1.79   | 3.15   | 0.72   | 1.67   | 2.27   | 11.86  | 8.55   | 7.12   | 5.54   | 20.95  | 35.88  | 35.47  | 38.02  |
| GDP per capita    |         |        |        |        |        |        |        |        |        |        | 2,172  | 2,353  | 2,551  | 2,730  |
| Unemployment rate |         |        |        |        |        |        |        |        |        |        | 2.33   | 2.21   | 2.21   | 2.25   |
| Export            | 18.50   | 21.00  | 23.00  | 27.70  | 27.16  | 26.70  | 69.61  | 63.52  | 59.33  | 79.74  | 176.6  | 215.1  | 243.5  | 263.6  |
| Import            | 19.40   | 20.50  | 22.00  | 22.72  | 24.20  | 24.50  | 66.02  | 59.69  | 57.41  | 69.02  | 175.0  | 213.2  | 236.7  | 254.4  |
| Export growth     | (15.50) | (2.00) | 0.31   | 2.49   | 18.02  | 9.91   | 8.52   | 7.99   | (6.82) | 10.61  | 8.99   | 21.82  | 13.19  | 8.16   |
| Import growth     | (15.90) | 5.16   | (2.94) | 2.85   | 11.63  | 10.05  | 3.45   | 4.06   | (9.46) | 3.74   | 5.55   | 21.85  | 11.01  | 7.41   |
| Inflation         | 2.40    | 3.17   | 3.39   | 3.18   | 2.98   | 2.47   | 2.79   | 3.53   | 3.57   | 3.81   | 2.66   | 3.53   | 3.54   | 2.79   |
| USD/VND           | 23,282  | 23,206 | 23,167 | 23,175 | 23,188 | 23,181 | 23,173 | 23,637 | 23,206 | 23,188 | 22,761 | 22,698 | 23,175 | 23,173 |
| Credit growth     | 1.20    | 3.26   | 4.05   | 4.16   | 6.10   |        | 13.70  | 0.68   | 2.80   | 26.10  | 18.25  | 18.24  | 13.89  | 13.70  |
| 10Y gov't bond    | 3.07    | 3.07   | 2.88   | 2.88   | 2.52   | 2.21   | 3.37   | 3.24   | 3.07   | 2.52   | 6.23   | 5.14   | 5.07   | 3.37   |

Source: GSO, Bloomberg, FIA, IMF

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